

The Security Analysts Association of Japan
Standards of Professional Conduct for Security Analysts
(Provisional English Translation¹)

Instituted 29 July 1987

Amended 1 June 2000 and 18 June 2002

Since its foundation in 1962 as an association of professionals working in the investment industry at large, the Security Analysts Association of Japan (the “Association”) has continuously pursued various activities with the aim of improving the skills and social status of security analysts. In this context and reflecting the rapidly growing need for the professional expertise of security analysts parallel with the growth and internationalization of Japanese capital markets, it was deemed essential to establish high ethical standards appropriate to professionals and which would also serve as a means of enhancing the authority and credibility of members of the Association. Thus, in 1987 the Association adopted Standards of Professional Conduct for Security Analysts and has continuously worked for the dissemination and establishment of these Standards as guidelines for the professional conduct of its members.

However, with the recent expansion of the asset management business and evolution of investment technology, the professional activities of security analysts are becoming increasingly sophisticated and diversified. At the same time, reflecting the globalization of investment, a movement is underway internationally to institute uniform guidelines concerning ethical requirements and standards of professional conduct for security analysts and to revise standards of national associations accordingly.

Deeming it necessary to adapt the Standards of Professional Conduct for Security Analysts to the rapid changes in both the investment environment and profession of security analysts as well as to maintain rigor in an international context, the Association therefore undertook a comprehensive review of the Standards. As a result, some revisions to the previous version are made and additional provisions (covering such matters as fiduciary duty, presentation of investment performance, and disclosure of conflict of interest) are incorporated in the latest version below.

Members of the Association are required to observe these Standards, regardless of the industry in which they work, as common standards governing professional conduct in performing security analysis.

¹ This translation is solely for the convenience of those interested therein, and accordingly if a discrepancy arises between the translation and the original Japanese version, the Japanese version is controlling.

1. Definitions

The primary terms used in these Standards are defined as set forth below:

- (1) “Member”: An Individual Member (a Chartered Member or General Member) of the Association. However, the term “member” used in Section 4 “Prohibition against Misrepresentation” refers to an Individual Member and also Corporate Member and Associate Member (engaged in security analysis).
- (2) “Security analysis”: The provision of investment information, investment recommendations, or investment management based on the analysis of a variety of information relating to security investments and the evaluation of investment value.
- (3) “Fiduciary relationship”: A relationship where, based on trust and confidence, one party performs professional services on behalf of another party, or other services authorized by that party, examples being the relationships between a company and its directors, trustees and beneficiaries, the issuer of a security and its underwriter, a pension fund and its officers, and clients and an investment adviser.
- (4) “Fiduciary duty”: The responsibility of the fiduciary, in a fiduciary relationship of trust and confidence to another party, to discharge his duties solely in the best interest of the other party, and with reasonable care expected of a professional expert.
- (5) “Beneficial ownership”: Relationships in which a direct or indirect pecuniary interest in securities lies with a person, regardless of whether or not the ownership of said security is in the name of that person.
- (6) “Material information”: Information relating to the issuer of a specific security that is likely to have an impact on the market price of the security when disclosed, or information relating to the issuer of a specific security which a reasonable investor would want to know prior to making an investment decision.

2. General Provisions

- (1) In the light of the important public role of security analysts, members shall perform their work in good faith and strive to improve the social status of security analysts and enhance the public confidence placed in them.
- (2) Members shall continually strive to maintain and improve their professional knowledge and skills appropriate to their professions.
- (3) In performing security analysis, members shall exert reasonable care and diligence from a professional point of view and make fair and objective judgments.

- (4) Members shall comply with all applicable laws and regulations, the articles and rules of the Association, and these Standards of Professional Conduct for Security Analysts.
- (5) Corporate Members and Associate Members shall respect these Standards of Professional Conduct for Security Analysts and shall exercise reasonable supervision over their executives/directors and employees to prevent any violation of applicable laws and regulations, the articles and rules of the Association, and these Standards of Professional Conduct for Security Analysts. In so doing, Corporate Members and Associate Members shall strive to ensure that the independence and objectivity of security analysis performed by members is preserved.

3. Provision of Investment Information, Investment Recommendations, and Investment Management

- (1) In the provision of investment information, investment recommendations, and investment management, members shall comply with the following:
 - a) Reasonable basis and representations
 - i) Members shall have a reasonable and sufficient basis for investment information, investment recommendations, and investment management supported by thorough and diligent research and analysis. Members shall maintain appropriate records to support the reasonableness of such investment information, investment recommendations, and investment management for a suitable period of time.
 - ii) Members shall clearly distinguish between facts and opinions.
 - iii) Members shall represent all relevant facts accurately to avoid any material misrepresentation.
 - iv) Members shall not make or imply, orally or in writing, any assurances or guarantees regarding the performance of any investment.
 - b) Suitability of investments
 - i) Members shall make a reasonable inquiry into a client's financial situation, investment experience, and investment objectives prior to performing any undertaking and shall update this information as necessary (at least once annually).
 - ii) Members shall give thorough consideration to the client's financial situation, investment needs, and investment objectives as well as to applicable relevant factors including the basic characteristics of the investment involved and the total portfolio, and shall consider the appropriateness and suitability of the provision of any investment

information, investment recommendations, and investment management, so that the most appropriate and suitable investment for the client's investment objectives is always made.

- (2) Members shall disclose the following information to their clients:
 - a) The basic principles and techniques of the investment process by which securities are selected and portfolios are constructed and any changes that might significantly affect the process.
 - b) The basic characteristics of respective investments and their associated risks.
- (3) When using or copying, in substantially the same form as the original material that has been prepared by another, members shall take prudent and thorough care, e.g. acknowledging and identifying the name of the author, publisher, or source of such material.

4. Prohibition against Misrepresentation

- (1) Members shall not make any statements, orally or in writing, which misrepresent:
 - a) The services that they are capable of performing for clients and any other important facts relevant to security analysis.
 - b) Professional or academic qualifications they hold.
- (2) If Members communicate the investment performance that they or their firm have accomplished or can reasonably be expected to achieve to clients or prospective clients, or the public, they shall make every reasonable effort to assure that such performance information is a fair, accurate, and complete presentation of such performance.
- (3) Presentation of investment performance that complies with all *requirements* of the investment performance standards adopted by the Association shall be deemed fair, accurate, and complete.

5. Fiduciary Duties

- (1) In the performance of security analysis, members shall discharge their duties solely in the best interest of their clients and other parties with which they have fiduciary relationships, and shall not give priority to their own interests or those of any third party.
- (2) Members shall perform security analysis with care, skill, prudence, and diligence, under the circumstances then prevailing, that is expected of a professional expert.

6. Prevention and Disclosure of Conflicts of Interest

- (1) Members shall disclose to their clients and prospective clients all matters that could reasonably be judged to impair their ability to perform unbiased and objective security analysis.
- (2) Members who are engaged in providing investment information or investment recommendations to their clients and prospective clients (hereinafter “investment recommendations, etc.”) in performing security analysis shall not beneficially own securities for which members make investment recommendations, etc. to their clients and prospective clients, unless such beneficial ownership is disclosed to clients and prospective clients in investment recommendations, etc. when it is reasonably judged that such ownership will not impair their ability to perform unbiased and objective security analysis.
- (3) Members engaged in investment recommendations, etc. shall provide sufficient opportunity to their clients and prospective clients to effect transactions based on such recommendations, placing priority on transactions for clients over transactions in securities of which members are or expected to be the beneficial owners.
- (4) Members engaged in investment management shall place priority on transactions for their respective employer over transactions in securities of which members are or expected to be the beneficial owners so that such personal transactions do not operate adversely to their employer’s interests.
- (5) Members shall not engage in any transaction with a client when acting as a principal or an agent for an associate without the knowledge and consent of the client.
- (6) Members shall disclose to their clients and prospective clients the following in addition to those required in provision (1):
 - a) All monetary compensation or other benefits that they receive or agree to receive for services provided clients or prospective clients that are in addition to compensation or benefits conferred by a firm or an organization they belong to.
 - b) Any compensation or benefit received or agreed to be received by them in relation to the recommendation of being taken any services by other parties to clients or prospective clients or introduction of clients or prospective clients to other parties.

7. Prohibition, etc., against Use of Material Non-public Information

- (1) If members acquire material non-public information as a result of a fiduciary relationship or other special relationship with the issuer of securities, they shall not communicate the information to others, or use the information in security analysis.

- (2) If members are not in a fiduciary relationship or other special relationship, they shall not communicate or use in security analysis such material non-public information if they know, or should have known, that the information was misappropriated or that disclosure would result in a breach of duty in a fiduciary relationship or other special relationship or applicable laws and regulations.
- (3) If members acquire material non-public information directly from the issuer, they shall strive to encourage the issuer to make it public if they determine such public disclosure appropriate.

8. Other Standards

- (1) Members shall act in a manner consistent with their obligation to deal fairly with all clients and prospective clients when performing security analysis.
- (2) Members shall take reasonable care that their own securities ownership and personal transactions do not inhibit the performance of fair and objective security analysis.
- (3) In performing security analysis, members shall take reasonable care to maintain independence and objectivity in their relationships with the issuers of securities and other interested parties, and shall make fair judgments.
- (4) In performing security analysis, members shall preserve the confidentiality of information communicated by clients within the scope of the professional relationship.
- (5) Chartered Members may use the designation “Chartered Member of the Security Analyst Association” or the mark “CMA” and general members may use the term “General Member”, but only in a dignified and judicious manner so that the authority of and confidence in the designation is preserved.